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ABSTRACT

In this report, the author describes and examines some of the policy alternatives available for the implementation of an equitable system of school finance. The author provides statistics that trace the historical disparities in interdistrict school expenditures, describes recent court challenges to school finance systems, and discusses both full State funding and equalized percentage matching alternatives. In discussing these alternatives, the author describes the effects of varying the measures of need and ability, and points out the implications of these alternatives for revenue raising in general and for property taxes in particular. (JF)

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IN SEARCH OF EQUALITY: SCHOOL FINANCE REVISITED

A Report prepared by Marian F. Bendixsen

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IN SEARCH OF EQUALITY: SCHOOL FINANCE REVISITED

We are called upon to determine whether the California public school financing system, with its substantial dependence on local property taxes and resultant wide disparities in school revenue, violates the equal protection clause of the fourteenth amendment. We have determined that this funding scheme invidiously discriminates against the poor because it makes the quality of a child's education a function of the wealth of his parents and neighbors. Recognizing, as we must, that the right to an education in our public schools is a fundamental interest which cannot be conditioned on wealth, we can discern no compelling state purpose necessitating the present method of financing. We have concluded, therefore, that such a system cannot withstand constitutional challenge and must fall before the equal protection clause.[1]

On August 30, 1971 in *Serrano v. Priest,* the Supreme Court of the State of California condemned that state's system of financing public education in a decision which is now nearly historic. Every state except Hawaii presently has a system which is similar in essential aspects to the California system and, consequently, every state but Hawaii stands in jeopardy of a *Serrano*-type decision. Within a few months of the decision federal courts in Texas and Minnesota and a state court in New Jersey rendered similar rulings.

As is discussed below these state and federal court decisions did not comment on a new problem in school finance: the issues raised in the courts have been before educators and legislators for most of the twentieth century. What has been introduced by the courts is a sense of urgency about the need to examine alternative means of financing education. The courts have declared in unequivocal language that the inequities in the present system are so great that they are not tolerable under the Constitution. Alternatives must be explored. This report describes and examines some of the policy alternatives available for implementation of an equitable system of school finance.

I. Equal Education Opportunity: An Enduring Refrain [2]

Achievement of some measure of educational equality and its relation to resource allocation were central in the thinking of those who studied and designed the present state support systems. At the beginning of this century Elwood P. Cubberley, who made the first comprehensive study of state school funds, formulated basic concepts of state responsibility for educating its children. He determined that the state owes it to itself that public schools be established, use qualified teachers, operate for some specified minimum period, and meet some state imposed requirements. He posited:

> Theoretically all the children of the state are equally important and are entitled to have the same advantages; practically this can never be quite true. The duty of the state is to secure for all as high a minimum of good instruction as is possible, but not to reduce all to this minimum; to equalize the advantages to all as nearly as can be done with the resources at hand; to place a premium on those local efforts which will enable communities to rise above the legal minimum as far as possible; and to encourage communities to extend their educational energies to new and desirable undertakings.[3]

Cubberley evaluated state methods of distributing school funds against his criteria and found that the unequal distribution of wealth among communities caused unequal burdens, that states should equalize the excessive burdens of communities but that few states had just and equitable plans for distributing the funds they had at hand.

Harlen Updegraff surveyed financial support of New York state rural schools in 1921 and, while maintaining that local support was fundamental, he proposed:

> The purpose of state aid should not be only to protect the state from ignorance, to provide intelligent workers in every field of activity, and to educate leaders but also to guarantee to each child, irrespective of where he happens to live, equal opportunity to that of any other child for the education which will best fit him for life.[4]

Updegraff developed a variable level foundation program—an approach which has been introduced again in the present reform movement—which incorporated the concepts of equalization of educational opportunity and reward for effort. His proposal used a sliding scale that provided increased amounts of state aid for each increase in millage of school taxes levied.

Also in the early twenties, the Education Finance Inquiry Commission published its findings. One of the 13 volumes, *The Financing of Education in the State of New York,* was written by George D. Strayer and Robert Murray Haig. Their concept of equalization of educational opportunity was enunciated as follows:

> There exists today and has existed for many years a movement which has come to be known as the "equalization of educational

opportunity" or the "equalization of school support." These phrases are interpreted in various ways. In its most extreme form the interpretation is somewhat as follows: The state should insure equal educational facilities to every child within its borders at a uniform effort throughout the state in terms of the burden of taxation; the tax burden of education should throughout the state be uniform in relation to tax-paying ability, and the provision for schools should be uniform in relation to the educable population desiring education. Most of the supporters of this proposition, however, would not preclude any particular community from offering at its own expense a particularly rich and costly educational program. They would insist that there be an adequate minimum offered everywhere, the expense of which should be considered a prior claim on the state's economic resources.[5]

Strayer and Haig determined that state support programs should incorporate these elements—a **uniform local tax rate** in support of a **satisfactory minimum offering** set at a level which would provide the necessary funds in the richest district. The richest district would be capable of raising its school money; deficiencies in other school districts would be made up by the state. Strayer and Haig emphasized equalization of tax burden as well as equalization of educational opportunity. They did not, however, believe in reward for effort which had been advanced by Cubberley and Updegraff and declared:

> Any formula which attempts to accomplish the double purpose of equalizing resources and rewarding effort must contain elements which are mutually inconsistent. It would appear to be more rational to seek to achieve local adherence to proper educational standards by methods which do not tend to destroy the very uniformity of effort called for by the doctrine of equality of educational opportunity.[6]

According to Stephen Bailey, et al. in *Schoolmen and Politics,* a study of state aid in the northeast, ". . . no single human being in the twentieth century had a more profound effect upon state educational finance than Paul R. Mort."[7] Mort accepted the concepts advanced by Strayer and Haig and undertook to define what would be a "satisfactory minimum program." In his dissertation published in 1926, *The Measurement of Educational Need*, he stated:

> A satisfactory equalization program would demand that each community have as many elementary and high school classroom or teacher units, or their equivalent, as is typical for communities having the same number of children to educate. It would demand that each of these classrooms meet certain requirements as to structure and physical environment. It would demand that each of these classrooms be provided with a teacher, course of study, equipment, supervision, and auxiliary activities meeting certain minimum requirements. It would demand that some communities furnish special facilities, such as transportation.[8]

Mort sought objective, equitable measures of educational need that could be used for apportioning state school funds with a minimum of

state control. His formulas were based on average practice of school districts and were weighted for relative costs of elementary and high schools and for schools of different sizes. He also dealt with problems of determining the proportions of cost to be borne by the state and the relative local taxpaying ability. During the 1920's, the New York legislature adopted major portions of his plan and he was employed as a consultant by a number of states to assist in developing state support programs.

The Strayer-Haig-Mort approach was not viewed as being without defects. In 1930, Henry C. Morrison wrote a book, *School Revenue,* in which he noted that great inequalities of wealth among school districts caused great inequalities in educational opportunity and that attempts to provide equal educational opportunities by enlarging school districts, by offering state equalization funds, and by offering state subsidies for special purposes had failed. Further he maintained that education is a state function and local school districts failed to provide that function efficiently or equitably. Hence, he proposed that the state abolish all local school districts and become the unit for both taxation and administration.[9] Localism was pervasive and Morrison's ideas were far outside the mainstream of American thought. Thus, Strayer-Haig-Mort formulas calling for state support of a minimum satisfactory program which did not preclude the offering by any community, at its own expense, of a rich and costly program, but which also did not reward such an effort, prevailed in the development of finance programs. Much of the work in school finance over the next two decades was in refinement and modification of Mort's design.

Growing largely out of ideas used in developing federal grants-in-aid, the concept of combining objectives of equalization and stimulation in the same foundation formula gained currency in the 1940's. In 1949, Wisconsin adopted as a basic feature of state support an equalized percentage matching formula, an approach which subsequently spread to other states. In theory, the state can provide complete fiscal equalization and can join with a locality in sharing the costs at any expenditure level. However, restrictive provisions such as specifying maximum and minimum percentages of sharing and placing ceilings on the level of expenditures, as well as the failure of legislatures to fund authorized programs fully, prevent complete fiscal equalization. Thus, the major state objective continues to be support of a minimum and inadequate foundation expenditure based on concepts formulated at the beginning of the century.

II. The Magnitude of Our Failure

In 1931-32, a national survey of school finance summarized the condition of state support as:

1. In all but a few states, the actual minimum status of education was determined by the economic ability of local districts to support schools rather than the social needs for education.
2. The minimum program actually guaranteed was in nearly every state far below the program provided in communities of average wealth.
3. An analysis of the methods used by the different states to measure educational need revealed that no state was using as refined measures as were available. Measures in use were inequitable in one or more of the following respects: treatment of variation of size of school, treatment of districts of the same size, caring for the higher costs of high schools, caring for nonresidence, consideration of costs of living, consideration of transportation, and consideration of capital outlays.[10]

Part of the survey has been continued on a 10-year cycle by the U.S. Office of Education. The main purpose of this survey is to show the variation in expenditures among states and school systems in order to encourage more adequate support. It is possible from these surveys to observe the general progress of the states in reducing the range of expenditures by comparing the ratio of the high expenditure (98th percentile) school systems to the low expenditure (2nd percentile) school systems as may be seen in Table I.* School districts expending either above or below these percentiles are customarily excluded since they often represent extreme and peculiar situations. Both increased state aid and elimination of small school districts have played a role in narrowing the range of expenditures among school systems. In 1950, when the national percentage of state aid was more than double that of 1930, the ratio of high to low expenditure districts decreased to 6 to 1 from 15 to 1 in 1940. In 1960, the percentage of state aid was the same as in 1950, 40 percent; but the number of districts declined sharply from 83,000 to 40,000 and the ratio of high to low expenditures decreased to 4 to 1. Expenditure ranges continued to narrow as the number of school districts continued to decline. Data compiled from the 1967 Census of Governments show the ratio from high to low was 3 to 1. The total number of districts in 1967 was 22,000. A similar pattern can be observed in a majority of the individual states.

While reflecting an improvement this 3 to 1 ratio represents a shocking disparity in the actual number of dollars spent for each child and, hence, in the provision of educational services. As is illustrated in Table II, in 1966-67 the expenditure per pupil ranged from a high of $923 to a low of $294.

* At the 98th percentile, only 2 percent of the children are in districts which spend that amount or more. At the 2nd percentile, 2 percent of the children are in districts which spend that amount or less.

TABLE IA—Selected Factors in Reducing the Range of Inter-district School Expenditures

	Ratios of Expenditures of 98th to 2nd Percentile			
	1939-40 [1]	1949-50 [2]	1959-60 [3]	1966-67 [4]
UNITED STATES	15.50	5.53	3.86	3.14
North Atlantic				
Connecticut	2.37	2.01	2.02	2.01
Delaware	2.18	2.23	1.87	1.53
Maine	3.63	3.04	2.14	1.55 [a]
Maryland	2.53	1.58	1.63	1.63
Massachusetts	2.18	2.17	1.82	1.70
New Hampshire	2.34	2.59	1.96	1.48
New Jersey	2.93	2.93	2.10	1.87
New York	4.03	2.78	1.84	1.98
Pennsylvania	4.58	3.31	1.98	1.73
Rhode Island	1.83	2.23	1.75	1.67
Vermont	3.49	2.89	2.30	1.27
Great Lakes & Plains				
Illinois	5.30	4.93	2.49	2.46
Indiana	3.07	3.91	2.68	1.66
Iowa	4.73	3.26	2.52	1.83
Kansas	5.52	5.03	2.63	1.75
Michigan	4.77	4.08	3.49	1.88
Minnesota	7.50	4.33	3.30	1.58
Missouri	6.37	3.52	3.96	1.90
Nebraska	4.40	4.04	2.75	2.10 [a]
North Dakota	4.98	3.88	2.81	1.68
Ohio	3.59	2.84	2.61	1.87
South Dakota	4.17	3.78	2.74	1.45
Wisconsin	4.93	4.22	3.84	1.46

See notes at end of table.

TABLE IA—Selected Factors in Reducing the Range of Interdistrict School Expenditures—Continued

	Ratios of Expenditures of 98th to 2nd Percentile			
	1939-40 [1]	1949-50 [2]	1959-60 [3]	1966-67 [4]
Southeast				
Alabama	11.99	1.99	1.62	1.73 [a]
Arkansas	12.83	3.13	2.45	2.14 [a]
Florida	4.81	1.90	1.53	1.81
Georgia	15.82	2.52	2.26	2.02 [a]
Kentucky	4.46	5.41	2.45	2.28 [a]
Louisiana	9.28	1.84	1.47	1.76 [a]
Mississippi	55.71	14.89	2.30	1.76 [a]
North Carolina	2.92	1.71	1.83	1.72 [a]
South Carolina	9.43	4.10	1.85	1.76 [a]
Tennessee	4.05	2.64	2.25	1.88 [a]
Virginia	7.95	3.12	2.95	2.19 [a]
West Virginia	1.77	1.70	1.77	1.90 [a]
West & Southwest				
Alaska	—	1.47	1.63	1.56
Arizona	1.88	3.07	2.30	2.03
California	2.86	2.17	1.91	2.27
Colorado	4.38	3.36	1.86	1.75
Hawaii	—	—	—	—
Idaho	2.93	2.68	1.81	1.72
Montana	5.48	3.53	2.29	1.44
Nevada	4.36	2.86	1.37	1.14
New Mexico	3.18	1.91	1.51	1.63
Oklahoma	3.23	2.09	1.74	1.76
Oregon	3.38	2.22	1.58	1.34
Texas	5.76	2.57	2.05	1.86
Utah	1.68	1.33	1.42	1.32
Washington	2.29	1.68	1.55	2.20
Wyoming	4.97	5.13	1.98	2.08

See notes at end of table.

TABLE IB—Selected Factors in Reducing the Range of Interdistrict School Expenditures

	Percent of School Revenue from State Sources				
	1930 [a]	1940 [a]	1950 [a]	1960 [a]	1968 [a]
UNITED STATES	17.3%	29.2%	39.8%	39.4%	38.5%
North Atlantic					
Connecticut	8.1	8.7	23.6	34.6	33.9
Delaware	87.9	84.4	83.5	82.5	71.5
Maine	28.6	15.6	27.8	25.8	30.2
Maryland	17.7	21.6	38.3	34.2	36.3
Massachusetts	9.5	10.0	20.5	20.0	22.5
New Hampshire	9.0	5.1	6.2	6.3	10.9
New Jersey	21.2	5.5	19.0	23.7	27.1
New York	27.6	33.1	40.0	39.5	45.3
Pennsylvania	13.9	21.0	35.1	45.8	42.1
Rhode Island	8.6	10.3	20.2	23.2	30.8
Vermont	12.2	14.5	27.6	24.8	33.6
Great Lakes & Plains					
Illinois	5.3	10.0	16.5	20.6	25.7
Indiana	5.5	32.2	37.4	29.9	36.2
Iowa	4.3	1.1	19.1	12.0	24.8
Kansas	1.7	10.9	24.0	19.2	28.2
Michigan	18.2	41.6	53.4	43.2	42.0
Minnesota	20.6	31.7	36.2	39.7	43.5
Missouri	10.6	32.1	38.9	31.0	30.8
Nebraska	5.4	1.0	6.2	6.5	4.7
North Dakota	11.1	12.8	27.0	26.4	25.4
Ohio	4.1	35.3	31.4	27.7	27.1
South Dakota	10.1	7.6	12.1	8.9	12.1
Wisconsin	17.0	17.2	17.4	22.6	28.4

See notes at end of table.

TABLE IB—Selected Factors in Reducing the Range of Interdistrict School Expenditures—Continued

	Percent of School Revenue from State Sources				
	1930 [5]	1940 [5]	1950 [5]	1960 [5]	1968 [6]
Southeast					
Alabama	40.8	54.1	71.6	65.3	56.2
Arkansas	33.7	43.2	58.1	46.6	43.2
Florida	22.8	50.4	50.8	56.5	43.6
Georgia	35.6	56.8	57.4	64.0	57.8
Kentucky	26.1	40.0	35.1	45.8	48.5
Louisiana	26.9	52.3	69.6	70.2	58.2
Mississippi	33.5	37.1	47.8	56.5	48.8
North Carolina	16.6	65.8	67.5	66.7	60.2
South Carolina	25.5	48.6	55.2	66.6	56.7
Tennessee	24.7	33.3	56.9	58.0	49.7
Virginia	27.9	31.2	39.6	37.0	35.8
West Virginia	8.3	50.7	62.7	52.9	50.9
West & Southwest					
Alaska	—	—	—	—	43.4
Arizona	19.6	18.8	33.8	34.0	30.8
California	25.6	45.9	41.3	40.6	35.8
Colorado	3.2	5.0	20.2	19.5	23.7
Hawaii	—	—	—	—	—
Idaho	7.7	10.7	23.5	27.6	34.0
Montana	14.1	7.2	25.3	23.6	26.7
Nevada	19.0	17.0	36.5	51.3	37.6
New Mexico	21.8	45.3	86.0	74.4	62.3
Oklahoma	10.6	34.0	56.5	27.7	34.5
Oregon	2.3	.4	28.6	29.3	24.8
Texas	42.6	39.4	61.8	50.0	45.1
Utah	33.6	37.3	50.3	44.0	48.6
Washington	28.9	57.9	65.6	61.6	56.6
Wyoming	27.1	4.3	42.0	47.5	38.2

See notes at end of table.

TABLE IC—Selected Factors in Reducing the Range of Interdistrict School Expenditures

	Number of School Districts				
	1931-32[a]	1939-40[a]	1949-50[a]	1959-60[a]	1967-68[a]
UNITED STATES	127 531	116 999	83 718	40 520	22 010
North Atlantic					
Connecticut	161	169	172	175	179
Delaware	126	—[b]	121	94	51
Maine	518	510	492	461	323
Maryland	24	24	24	24	24
Massachusetts	355	351	351	376	406
New Hampshire	244	241	240	230	183
New Jersey	552	559	559	588	593
New York	9 467	6 433	3 929	1 340	853
Pennsylvania	2 587	2 535	2 524	1 261	597
Rhode Island	39	39	39	39	40
Vermont	268	—[b]	265	263	273
Great Lakes & Plains					
Illinois	12 070	11 996	4 880	1 685	1 315
Indiana	1 292	1 152	1 056	928	395
Iowa	4 870	4 869	4 652	2 022	474
Kansas	8 748	7 394	5 257	2 610	336
Michigan	6 965	6 466	4 918	2 099	718
Minnesota	7 773	7 685	7 116	2 581	1 150
Missouri	8 764	8 661	6 273	1 921	815
Nebraska	7 244	7 063	6 769	3 777	2 172
North Dakota	2 228	2 274	2 250	1 351	498
Ohio	2 043	1 668	1 509	936	691
South Dakota	3 433	3 429	3 401	3 070	1 804
Wisconsin	7 662	7 392	5 792	2 877	493
Southeast					
Alabama	112	111	108	114	118
Arkansas	3 193	2 907	421	422	395
Florida	67	67	67	67	67
Georgia	272	1,203	186	198	195
Kentucky	384	262	237	212	199
Louisiana	66	67	67	67	66
Mississippi	5 560	4 954	3 673	151	149
North Carolina	200	171	172	174	160
South Carolina	1 792	1 738	1 559	108	105
Tennessee	194	162	148	153	151
Virginia	125	124	127	127	132
West Virginia	450	55	55	55	55

See notes at end of table.

TABLE IC—Selected Factors in Reducing the Range of Interdistrict School Expenditures—Continued

	Number of School Districts				
	1931-32 [7]	1939-40 [b]	1949-50 [7]	1959-60 [7]	1967-68 [6]
West & Southwest					
Alaska	—	—	27	29	27
Arizona	500	405	274	305	297
California	3 589	2 993	2 381	1 721	1 105
Colorado	2 041	1 868	1 533	522	181
Hawaii	—	—	—	—	—
Idaho	1 418	1 195	810	156	117
Montana	2 439	2 066	1 381	1 234	840
Nevada	266	255	196	17	17
New Mexico	98	1 730	107	91	90
Oklahoma	4 933	4 174	2 176	1 322	949
Oregon	2 234	2 015	1 179	572	376
Texas	7 932	5 664	3 324	1 581	1 273
Utah	40	40	40	40	40
Washington	1 792	1 411	591	425	341
Wyoming	400	375	316	223	180

Sources:

[1] John K. Norton and Eugene S. Lawler, *An Inventory of Public School Expenditures in the United States.* American Council on Education, 1944.

[2] Clayton D. Hutchins and Albert R. Munse, *Expenditures for Education at the Midcentury.* U.S. Office of Education, 1953.

[3] Forrest W. Harrison and Eugene P. McLoone, *Profiles in School Support.* U.S. Office of Education, 1965.

[4] Compiled from data in *1967 Census of Governments.* U.S. Bureau of Census, 1967.

[5] Council of Chief State School Officers, *Education in the States: Nationwide Development Since 1900,* Washington: National Education Association, 1969.

[6] U.S. Office of Education, *Statistics of State School Systems, 1967-68.* Washington: Government Printing Office, 1970.

[7] U.S. Office of Education, *Statistics of State School Systems, 1961-62.* Washington: Government Printing Office, 1964.

[8] NEA Research Division, "Trends in Number of School Districts," Research Memo 1959-31. Washington: National Education Association, 1959.

[a] Based on estimated 2nd percentile figures.

[b] Inconsistent data.

[c] In those instances where 2 or more school districts have organized into jointures for purposes of operating schools, the larger operating unit is the unit counted here.

TABLE II—Per Pupil Expenditure at Selected Percentiles—1966-67

	2nd	50th	75th	90th	98th
UNITED STATES	$294	$523	$666	$716	$923
North Atlantic					
Connecticut	364	503	560	639	730
Delaware	455	541	581	648	696
Maine	256 [a]	334	372	389	398
Maryland	360	501	543	556	587
Massachusetts	395	509	555	592	670
New Hampshire	405	552	579	591	598
New Jersey	466	602	671	771	873
New York	707	872	963	985	1 400
Pennsylvania	455	585	675	733	787
Rhode Island	355	476	537	575	595
Vermont	550	695	695	695	697
Great Lakes & Plains					
Illinois	396	535	546	654	975
Indiana	404	540	584	626	672
Iowa	352	520	551	625	644
Kansas	387	499	533	579	678
Michigan	431	589	636	700	811
Minnesota	460	611	646	684	729
Missouri	406	543	557	599	770
Nebraska	283 [a]	465	515	575	594
North Dakota	353	461	544	578	594
Ohio	360	494	550	586	679
South Dakota	403	503	530	547	585
Wisconsin	458	546	545	587	680

See notes at end of table.

TABLE II—Per Pupil Expenditure at Selected Percentiles—1966-67—Continued

	2nd	50th	75th	90th	98th
Southeast					
Alabama	257 [a]	361	393	424	444
Arkansas	254 [a]	347	389	474	544
Florida	355	475	523	545	642
Georgia	264 [a]	415	448	487	532
Kentucky	262 [a]	415	455	485	598
Louisiana	335 [a]	459	510	547	589
Mississippi	254 [a]	308	355	375	447
North Carolina	283 [a]	385	418	448	488
South Carolina	252 [a]	338	382	420	443
Tennessee	265 [a]	357	384	412	497
Virginia	285 [a]	404	457	528	625
West Virginia	278 [a]	428	461	490	529
West & Southwest					
Alaska	510	716	769	785	796
Arizona	364	581	635	701	740
California	408	619	686	748	925
Colorado	395	521	625	649	691
Hawaii	—	—	—	—	—
Idaho	300 [a]	425	436	448	516
Montana	410	519	540	564	592
Nevada	505	537	539	547	575
New Mexico	452	501	548	654	739
Oklahoma	283 [a]	452	477	491	499
Oregon	551	627	659	686	741
Texas	305 [a]	429	469	519	567
Utah	450	479	516	539	596
Washington	316 [a]	546	616	644	696
Wyoming	452	521	533	906	940

Source: Compiled from data in *1967 Census of Governments.* U.S. Bureau of Census, 1967.

[a] Estimated.

Source: Compiled from data in *1967 Census of Governments.* U.S. Bureau of Census, 1967.

[a] Estimated.

School systems historically have been accorded access to vastly different resources and have made varying degrees of tax effort. While both factors account for observable differences in expenditures, numerous studies have shown an almost perfect correlation between wealth and the expenditure level of school districts. For example, data in 1968-69 from two districts each—representing one rich and one poor—in California and Maryland illustrate this classic correlation.

State	*Locality*	*District Wealth*	*Tax Rate*	*Per Pupil Expenditure*
California	Beverly Hills Unified	$50 885	$2.38	$1 232
	Baldwin Park Unified	3 697	5.48	577
Maryland	Montgomery County	30 349	2.28	876
	Calvert County	13 357	2.26	584

The reasons state support systems fail in their attempts to overcome the relationship between wealth and expenditure are obvious. The maximum amount the state assures each district to provide the basic program consistently falls far short of the costs of necessary educational services. For intance, California's maximum amount is only $355 per elementary pupil, Maryland's only $370. Districts raise money locally to meet educational costs which exceed the foundation guarantee. Table III outlines the predictable result in five hypothetical districts. Rich districts spend more dollars for the education of their children, poor districts spend considerably less.

TABLE III—Dynamics of Traditional State Aid Programs

District	Equalized Assessed Valuation Per Pupil	Qualifying Tax Rate	Local Education Funds Per Pupil	State Basic Aid	State Equalization Funds	Total Foundation Funds	Local Leeway Tax Rate	Total Leeway Funds Per Pupil	Total State and Local Current Expenditure Per Pupil
A	40 000	1.0	400	125	0	525	1.0	400	925
B	25 000	1.0	250	125	25	400	1.5	375	775
C	20 000	1.0	200	125	75	400	1.5	300	700
D	10 000	1.0	100	125	175	400	2.0	200	600
E	5 000	1.0	50	125	225	400	2.0	100	500

While states often distribute funds through several grants-in-aid, general purpose equalization grants and basic aid grants constitute the significant distributions of state monies. Hence, the illustration deals only with these two state distributions.

It is assumed that the state guarantees $400 per pupil and sets a qualifying rate of 1%, that state basic aid is $125, and that it is added to local funds before equalization funds are calculated. The assumed additional local tax levies follow the established pattern of poorer districts making greater tax efforts than the wealthy.

III. School Finance Reform Today: A New Approach

During the 1960's, the fact that the public schools were proving unable to provide a meaningful education for the children of the poor and racial minorities became all too evident. State school finance systems which allocate resources in a manner to favor the wealthy and penalize the poor appeared unjustifiable. In 1965, Professor Arthur E. Wise advanced the theory that the constitutionality of state support programs could be challenged under the Equal Protection Clause of the Fourteenth Amendment.[11]

Challenge in the Courts

The constitutional argument revolves around state classification of persons. The Fourteenth Amendment is concerned with state action as it affects individuals and states in part that no state shall ". . . deny to any person within its jurisdiction the equal protection of the laws." Courts have not construed the "equal protection" clause as requiring identical treatment for all, but rather as requiring a "reasonable" classification for any state action or system which treats individuals differently—"reasonable" to the extent that there is a rational connection between a legitimate legislative purpose and the means of classification. Classification can be on the basis of almost any attribute.

Historically the Supreme Court has been reluctant to overturn state statutory classifications even though the basis may not be the most rational nor the wisest, preferring to defer to legislative expertise. In recent years, however, legislative classification in certain areas affecting a "fundamental interest" is no longer always given the benefit of the doubt by the Court and must face the test of a "compelling state interest." Criminal justice as it affects indigent defendants and voting rights are two such areas. And, at least one ground for classification for a particular purpose is no longer constitutionally permissible: classification by race for the purpose of segregation. The holdings of the Court in these important areas—voting rights, criminal justice, and race—suggest the rationale for the proposition that state finance systems which deny equality of educational opportunity to children in poor districts may be a denial of equal protection.

Several law suits were initiated—most notably in Detroit, Michigan; Chicago, Illinois; Bath County, Virginia; San Antonio, Texas; and Los Angeles, California. The Chicago and Bath County suits proceeded rapidly through the federal court system. In the Chicago case, *McInnis v. Ogilvie,* plaintiffs asked that Illinois legislation which provided for and permitted the distribution of monies "not based upon the educational needs of children" and resulting in unequal per pupil expenditures be declared unconstitutional and also asked that "a permanent injunction be granted." The three-judge federal district court dismissed the complaint for failure to state a cause of action. In its dismissal the federal district court was not unmindful of the inequities and recognized that there were

wide variations in the amount of money available for Illinois school districts. Nevertheless, the court found the Illinois statutes neither discriminatory nor arbitrary and further stated that it could discern no "judicially manageable standards" upon which to grant relief. The U.S. Supreme Court summarily affirmed the opinion of the district court. The Bath County case met a similar fate. In the meantime the Los Angeles case, *Serrano v. Priest,* was making its way through the California state courts and had been dismissed by two lower courts without an opinion other than a citation to *McInnis v. Ogilvie.* By the time the case reached the Supreme Court of California the issue of defining students' educational needs had been side stepped by the plaintiffs in favor of a showing of economic discrimination in linking the quality of a child's education program to the wealth of his school district.

The *Serrano* Decision

In determining that the California state system of school finance is unconstitutional, the California Court may have handed down a landmark decision. Unfortunately, this decision has been widely reported as holding that the property tax is unconstitutional, that a uniform statewide level of expenditure is required, and that such a ruling means the end of diversity in American education. The decision supports none of these contentions. What the court actually determined is that:

1. It is "irrefutable" that the school financing system classifies on the basis of wealth.

> Over half of all educational revenue is raised locally by levying taxes on real property in the individual school districts. Above the foundation program minimum, the wealth of a school district, as measured by its assessed valuation, is the major determinant of educational expenditures. Although the amount of money raised locally is also a function of the rate at which the residents of a district are willing to tax themselves, as a practical matter districts with small tax bases simply cannot levy taxes at a rate sufficient to produce the revenue that more affluent districts reap with minimal tax efforts. . . . Obviously, the richer district is favored when it can provide the same educational quality for its children with less tax effort . . . affluent districts can have their cake and eat it too . . .

2. Education is a "distinctive and priceless function" which must be treated as a "fundamental interest" not to be conditioned on wealth.

> First, education is essential in maintaining what several commentators have termed "free enterprise democracy"—that is, preserving an individual's opportunity to compete successfully in the economic marketplace, despite a disadvantaged background. Accordingly, the public schools of this state are the bright hope for entry of the poor and oppressed into the mainstream of American society.

Second, education is universally relevant. "Not every person finds it necessary to call upon the fire department or even the police in an entire lifetime. Relatively few are on welfare. Every person, however, benefits from education . . ."[12]

Third, public education continues over a lengthly period of life—between 10 and 13 years. Few other government services have such sustained intensive contact with the recipient.

Fourth, education is unmatched in the extent to which it molds the personality of the youth of society. . . .

Finally, education is so important that the state has made it compulsory—not only in the requirement of attendance but also by assignment to a particular district and school. Although a child of wealthy parents has the opportunity to attend a private school, this freedom is seldom available to the indigent. In this context, it has been suggested that a child of the poor assigned willy-nilly to an inferior state school takes on the complexion of a prisoner, complete with a minimum sentence of 12 years.

3. No "compelling state interest" is served by the current financing system. The court examined two aspects of the asserted state interest "to strengthen and encourage local responsibility," advanced by defendants.

a. With regard to granting to local districts effective decision-making power over the administration of their schools, the court said:

The individual district may well be in the best position to decide whom to hire, how to schedule its educational offerings, and a host of other matters which are either of significant local impact or of such a detailed nature as to require decentralized determination . . . the present financial system cannot be considered necessary to further this interest. No matter how the state decides to finance its system of public education, it can still leave this decision-making power in the hands of local districts.

b. With regard to allowing a local district to choose how much it wishes to spend on the education of its children, the court said:

We need not decide whether such decentralized financial decision-making is a compelling state interest, since under the present financing system, such fiscal freewill is a cruel illusion for the poor school districts . . . so long as the assessed valuation within a district's boundaries is a major determinant of how much it can spend for its schools, only a district with a large tax base will be truly able to decide how much it really cares about education. The poor district cannot freely choose to tax itself into an excellence which its tax rolls cannot provide. Far from being necessary to promote local fiscal choice, the present financing system actually deprives the less wealthy districts of that option.[13]

In light of the above findings the court reversed the lower court's judgment and remanded the case to the trial court.

IV. Alternatives for Providing Equitable School Finance Systems

There is no formal judgment in effect in the *Serrano* case. There still must be a trial and the defendents presumably do not plan an appeal to the U.S. Supreme Court at this time. Nevertheless, as already mentioned, other courts have now entered similar decisions and undoubtedly there will be an appeal to the U.S. Supreme Court eventually. It is assumed, for purposes of this paper, that these decisions will stand. The courts have clearly delineated a basic flaw in the state support systems. It is now up to responsible education policy makers and their supporters to end irrational and inequitable finance arrangements. At a minimum, *Serrano* and more recent decisions require the states to assume responsibility for funding education in a manner which does not allow the wealth of a district to be a determining factor in the level of educational expenditure in that district. This can be accomplished through state assumption of educational costs or through an appropriately constructed system of equalization.

Full State Funding

Under full state funding the state simply assumes fiscal responsibility for local schools. Among the supporters of such a plan are James Conant, the Advisory Commission on Intergovernmental Relations (ACIR) and Governor Milliken of Michigan.

ACIR in its 1969 study, *State Aid to Local Government,* recommended that, ". . . each state adopt as a basic objective of its long-range state-local fiscal policy the assumption by the state of substantially all fiscal responsibility for financing local schools with opportunity for financial enrichment at the local level and assurance of retention of appropriate local policy-making authority." [14] While in favor of local financial enrichment, ACIR noted that any supplemental local levy would have to be limited to perhaps 10 percent to avoid undermining equalization. Some lawyers involved in the reform movement feel that allowing even a small amount of unequalized supplemental levy may prove to be unconstitutional since only the wealthy may be able to avail themselves of it.

More recently the Citizens Commission on Maryland Government has recommended full state funding for Maryland. Maryland, which has 24 countywide school districts, has a $300 per pupil range between high and low expenditures. The plan calls for the state to provide a per pupil current expenditure equalized at the level of the highest-spending school district in 1971-72 by the end of a three-year phase-in period. A variation of 5% in either direction would be allowed for differences in cost of living. In addition to the equalized expenditure, state and federal funds designed to recognize such needs as aid to educationally deprived children and provision of special educational services would be allocated. To avert

district channeling of all new funds into increased salaries and/or decreasing teacher-pupil ratios, the Commission recommended that the state require at least 20 percent of the local district budget be spent for purposes other than professional salaries (i.e., administrative, certified professional, and clerical personnel). The bulk of the revenues for education would come from statewide taxes, primarily progressive individual and corporate income taxes and corporate franchise tax. The Commission also recommended a uniform statewide property tax to provide the remainder of needed revenue. Structures to insure local policy control and local management are suggested and statewide performance evaluation is prescribed.[15]

The New York State Commission on Quality, Cost, and Financing of Elementary and Secondary Education (Fleischmann Commission), whose report is in the process of being released, favors full state funding. However, the greater number of school districts, 750, and the greater range in school expenditures, from $400 to $4,000, poses special difficulties to state assumption. Thus, the Commission proposes a plan to raise expenditures in the low spending districts to the 65th percentile—less federal, special, and urban correction aid. Increases would be limited to 15 percent of the basic amount per year requiring about three years to raise all districts to this level. High spending districts would be permitted their current expenditure level. The recommended state distribution plan would allocate money to schools on the basis of enrollment and of readiness of children for school, providing more funds for those demonstrated to be less ready. Regional education centers, now being developed, would be the primary means of providing specialized and/or particularly costly services. The revenue plan assumes greater use of progressive tax instruments and a uniform statewide property tax rate with staged rate adjustments up or down.[16]

Other approaches to state assumption of education costs may also be considered. The 1959-60 decennial survey found that three principal factors which correlated with district expenditure, in order of degree were:

Teacher Salaries. The average in any given community was found to be almost equal to median family income in that community. Thus, community economic factors presumptively determine the salary paid.

Pupil-Teacher Ratios. In the 34 states which specified a pupil-teacher ratio at the time of the study, there were in prevailing practice fewer pupils per teacher than the number specified in the state aid plan. Local funds exclusively supported the larger number of staff members.

Amount of funds spent on materials and supplies.[17]

State payment of teacher salary schedules and state purchasing of materials and supplies, along with a more liberalized approach to staffing ratios are feasible steps toward leveling-up low expenditure districts and full state assumption of education costs.

Finally, a budgetary approach to state distribution of funds has been proposed by James B. Conant and by H. Thomas James, early supporters of full state funding. For instance, James suggests that given the current capacity of computers budgets for elementary and secondary education could be built in the same way as is now done in higher education. That is, "with statements of needs of children, aggregated to classrooms, aggregated again to attendance centers, school districts, and finally aggregated to the statewide budget for schools to be presented to the legislature . . ."[18]

Equalized Percentage Matching[19]

Equalized percentage matching permits continuation of a state and local partnership in assuming responsibility for financing schools. The major goals pursued by such an approach are support of a defined state education program, fiscal contributions from state and local tax bases, and equalization of district need and ability through allocation of state support in inverse proportion to local wealth. For analytical purposes, variations of equalized percentage matching are categorized as Strayer-Haig, percentage equalizing, or power equalizing.

Strayer-Haig. A single expenditure level is set by the state as both a floor and a ceiling for joint support. The local unit must levy a specified tax rate to participate. The yield which that tax effort produces from the local tax base is deducted from the established expenditure level to determine the state allocation. This approach takes a minimum basic program as the potential to which equalization is achieved.

Percentage Equalizing[20] **or State Aid Ratio.** The state's percentage share in any given district's program is computed under a formula:

$$\text{State grant} = \left(1 - X\,\frac{\text{district wealth per pupil}}{\text{state average wealth per pupil}}\right) \times \text{district expenditure}$$

X is a predetermined constant which establishes the degree of equalization. The formula determines state aid in inverse proportion to a district's tax-paying ability and the state can, theoretically, share at that ratio in any expenditure level decided upon locally. This approach takes the statewide average as the potential to which equalization is achieved.

Power Equalizing[21] **or Guaranteed Valuation or Tax Yield per Unit of Need.** The state guarantees that a given tax levy on district wealth will provide a given tax yield. The state can either set the tax yield of a given rate or establish a guaranteed fixed valuation per unit of need (i.e., per pupil or per teaching unit). The state can set a range of levies and share in

variable spending levels decided upon locally. The state either pays to or collects from local districts the difference between the local yield from a given tax levy and the guaranteed level of expenditure. Power Equalizing takes the district of highest wealth as the potential to which equalization is achieved.

Legal descriptions of equalized percentage matching often are written much differently than the analytical models; however, mathematically these three formulations are essentially the same. Their mathematical similarity permits a single approach to evaluating their adaptability in satisfying a *Serrano*-type decree.

To achieve true fiscal equality, and thus satisfy a wealth-free criteria in determining a school system's expenditure on an equalized percentage matching basis, each district must have access to the average of the *total* state educational tax base per child. This imperative requires a statewide rather than a fragmented local approach to raising and distributing education monies. Both state tax sources and tax sources which have been authorized by the state for use by local education authorities must be viewed as an integral part of a total state tax base. This total tax base provides a reservoir of funds for education which may be drawn upon by the school systems in accordance with their needs, abilities and, if variable level spending is allowed, their desires as measured by local tax effort or contribution.

In designing the joint program, four essential factors need to be considered. These factors are: 1) a measure of need, 2) a measure of ability, 3) the amount per unit of need that will be jointly supported through state and local effort, and 4) the local effort (tax rate or contribution).

A Measure of Need. Need is essentially some count of pupils and may be the number of pupils in average daily attendance, in average daily membership, or the number of pupils enrolled. The count can be weighted for various educationally relevant factors. Many advocate weighting as an essential step toward equality of education opportunity. (See the discussion on pages 29 and 30.)

A Measure of Ability. Typically the measure of ability is an equalized assessed real property measure, although several states have moved to a combination of income and property measure. Local ability can be adjusted for relevant factors. (See discussion on page 31.)

The **amount per unit of need** to be jointly supported, i.e., the expenditure per pupil, and **the local effort,** i.e., qualifying tax rate or local contribution, need to be established when there is a fixed foundation program or a ceiling on the expenditure level or a power equalizing schedule. These factors need not be determined when using open-ended equalized percentage matching.

Table IV illustrates a fully equalized percentage matching approach assuming the same five hypothetical districts as in Table III.

TABLE IV—Equalized Percentage Matching

District	NEED: No. of Students	NEED: Percent of Total Students	ABILITY: Percent of Total Tax base	Relative Wealth Ratio (dist. to state avg.)	State Equalization Percentage	Portion of District Expenditure for Equalized Matching from: Local	Portion of District Expenditure for Equalized Matching from: State	Redistribution Percentage
A	2 000	20%	40%	2.00	↑	100.0	0	+20
B	2 000	20	25	1.25	|	62.5	37.5	+ 5
C	2 000	20	20	1.00	|	50.0	50.0	0
D	2 000	20	10	.50	50.0	25.0	75.0	−10
E	2 000	20	05	.25	↓	12.5	87.5	−15
State Total	10 000	100	100	—		—	—	25

Relative wealth ratio is the percent of the base divided by the percent of students.

State equalization share is 1.00 − (1/2.00) = .50

Where: 1.00 is the total state education program
1 is the state average ability per unit of need
2.00 is the ratio of the wealthiest district

Local share for equalized matching is (1 − .50) × district relative wealth

Where: 1 is the total district education program
.50 is the state equalization share

State share is 100 − local share

Redistribution Percentage is percent of ability − percent of need

Statewide redistribution percentage = 25

Where: percent of total tax base − percent of total students = a net gain in districts A & B of + 25 and a net loss in districts D & E of − 25.

The key to full equalization is the wealthiest district. The state equalization percentage is the maximum percentage of the total state and local funds for education the state needs to provide to achieve full equalization. This percentage is determined by the ratio of the wealthiest district's ability per unit of need to that of the state's average ability per unit of need. The redistribution percentage is the smallest amount of money the state needs to handle in order to achieve equalization. For instance, presume the most extreme circumstance of a state's deciding that the local property tax represented the total state tax base for education. In the example in Table IV the state would need to redistribute 25 percent of the base from the wealthy districts to the poor districts. The redistribution percentage reflects the overall distribution of wealth among the districts.

If a fixed foundation amount is imposed, the level of expenditure and qualifying tax rate need to be determined. When equalization is the goal, the relationship between these two factors is such that when a mandated tax rate is established the expenditure level is automatically determined and visa versa. Again, the key is the wealthiest district. The rate must be set at the level which is required in the wealthiest district to raise the foundation amount: for instance, a 2 mill tax rate and an $800 expenditure per pupil in the illustration. If the expenditure level is set lower, for instance $600, excess local collections in the wealthy district must be paid to the state. If set at a higher level, say $1,000, the state is giving local tax relief through a $200 flat grant.

A power equalizing schedule may also be established on the basis of the information presented in the table. The following schedule uses the wealthiest district as the key and recognizes a relationship between the expenditure level and the tax rate.

Tax Rate (mills)	Expenditure
1.0	$ 400
1.5	600
2.0	800
2.5	1000
3.0	1200

Such a schedule avoids the problems of excess local collections in the wealthy districts or "disguised" flat grants. As proposed, power equalizing would allow modification of the relationship of the wealthiest district, the expenditure level, and the tax rate. For example, a schedule might be established as follows:

Tax Rate	Expenditure
1.0	$600
1.5	800
2.0	900

This schedule would award both flat grant funds and equalization funds in the amounts and the percentages set forth below:

Tax Rate	Flat Grant	Equalization Grant	% Flat	% Equalization
1.0	$200	$400	1/3	2/3
1.5	200	600	1/4	3/4
2.0	100	800	1/9	8/9

Under such a schedule the localities that make greater tax efforts get proportionately less local tax relief. While this may or may not be desirable policy, it is important to realize that such skewing is taking place. Further, it is good to keep in mind that a number of the capricious elements in the current formulas have evolved because state education policy makers have failed to recognize the relationship of wealth, expenditure, and tax rates in the legislation and often arbitrarily alter individual factors without regard for their interdependence.

There are elements which are absolutely essential to equalized percentage matching if, as a minimum, fiscal equity is the goal.

- . . . The wealthiest district or, if school districts are excessively small a group of the wealthiest districts, must be used to determine the statewide equalization percentage.
- . . . If the state does not use the wealthiest district as the equalization potential, it must be willing to demand payment of excess local collections for redistribution.
- . . . If expenditure levels are set, the relationship between the corresponding tax rate and expenditure level must be recognized, whether fixed or variable.
- . . . A realistic education program must be defined and the total costs covered.
- . . . Local add-ons for enrichment, unless equalized by the state, must be sharply curtailed or, in the view of some, eliminated altogether.

Dollar equity in distributing education funds can be achieved through state assumption of education costs or a joint equalization program. It can also be achieved in a combined flat grant and equalization program if a state assumes a significant portion, but not all costs, in order to grant local tax relief.

Varying the Measures of Need and of Ability

The previous sections have been concerned primarily with methods of separating school finance from local wealth to establish a minimum of fiscal equity. Realities in education require a broader approach. The **needs** of children vary. Provision of educational services, and thus education costs, must vary accordingly. Weightings can be assigned to pupils in the education program, whether fully state funded or equalized percentage matching, to account for differences in cost beyond control of local

districts. The recently completed National Education Finance Project computed the following weights from current best practices:

> The weight of "1.00" is assigned to regular pupils in elementary schools. If it is found that the cost of educating exceptional pupils is approximately twice the per pupil cost of regular pupils in elementary schools, then the full time pupils enrolled in classes for the exceptional are given the weight of "2.00."

Educational Program	Weight Assigned
Basic Elementary grades 1-6	1.00
Grades 7-9	1.20
Grades 10-12	1.40
Kindergarten	1.30
Pre-school (3 and 4 year olds)	1.40
Mentally handicapped	1.90
Physically handicapped	3.25
Emotionally handicapped	2.80
Special learning disorder	2.40
Speech handicapped	1.20
Compensatory education	2.00
Vocational-technical	1.80[22]

Increased costs, except as they relate to secondary students, are largely ignored in foundation programs, although in some instances the state provides additional aid through special grant programs. Some of the cost differentials are not well accepted nor easy to apply. For instance, compensatory education poses difficult problems. First, relatively large scale programs have obtained uncertain results raising serious questions about their efficacy. Second, what are the appropriate criteria for identifying students in need of these programs? Sharp disagreement occurs over the use of either student achievement test measures or parental characteristics such as family income, level of education, being recipients of Aid to Families with Dependent Children (AFDC). One of the reports prepared for the Fleishman Commission study found that AFDC students in New York State are only 57 percent of the number of low achieving students. Further, twice as many districts, including older suburban and poor rural, in addition to the big cities are assisted if achievement tests are used to identify students in need of compensatory education. This study recommends using test data collected on students at an early age—certainly no later than when they are in the third grade—to weight them in terms of readiness for school.[23]

Varying the measure of ability may produce a higher degree of equity. It also raises a number of questions. Combining income and property to determine local ability is an attempt to take into account state tax payments as well as local property tax payments and is supported as a better measure of actual ability to pay taxes. However, this approach works only where districts can tax both property *and* income. The combined measure will result in increased property taxes of some because of the greater income of others if local districts may not tax income. For instance, earned income

in relation to property value tends to be low for agriculture and high for services: the relative ability of districts with these types of local economies shifts under a combined measure.

Recognition of variations in provision of other general public services may be a factor in determining local ability. Non-school use of revenues (e.g., police, sanitation) has been demonstrated to take a far greater share of the funds of big cities than those of surrounding suburbs. However, some feel that taking "municipal overburden" into consideration in the school formula is too indirect and recommend providing direct state support for other services. Others dispute the existence of a municipal overburden factor since overburden is characteristic of only certain large city school systems. A recent U.S. Office of Education study, *Finances of Large City School Systems,* found that ". . . formulas for distribution of state revenues . . . . did not discriminate against large-city school systems per se but did operate to the disadvantage of city school systems having certain characteristics not identified in this study. Therefore, it is concluded that the distribution of state revenues may fail to consider the special needs of any school system in the state and not militate solely against city school systems in favor of the rest of the state." [24]

Altering need or ability may change significantly the districts' relative wealth and hence their relative position to one another. Tables V and VI illustrate this shifting. In each of the illustrations, the state will need to put up more money than shown in Table IV to achieve equalization. Further, not only do the other districts change relative to District B but they also become wealthier in relation to the state average.

Determinants of need and ability must be carefully evaluated in each state to assure that insofar as possible the selected measures accurately reflect local capabilities. In the course of evaluation the state may discover that some weightings do not alter the districts' relative standings. If operating under either full state funding or under a joint program with a fixed expenditure amount or with a ceiling, the amount may be adjusted upward for all districts to recognize these particular cost factors. On the other hand, if the state finds that local districts are not directing funds to areas of special needs, it may still choose to weight pupils even though district relative wealth is not altered.

Applying cost differentials sets up a system of classification wherein different kinds of students—handicapped, vocational, disadvantaged—or districts are treated differently. This may, at first glance, appear suspect and vulnerable to a *Serrano*-type ruling. However, this is not the case since *Serrano* only precludes making the quality of a child's education a function of local district wealth. Indeed, sound education policy would appear to demand that educationally relevant differences among children and districts be recognized.

TABLE V—Equalized Percentage Matching—Varying the Measure of Need in District B

District	NEED		ABILITY	Relative Wealth Ratio (dist. to state avg.)	State Equalization Percentage	Portion of District Expenditure for Equalized Matching from		Redistribution Percentage
	No. of Students	Percent of Total Students	Percent of Total Tax base			Local	State	
A	2 000	18%	40%	2.22	↑	100	0	+22
B	3 000	27	25	.93		41.9	58.1	— 2
C	2 000	18	20	1.11		50.1	49.9	+ 2
D	2 000	18	10	.56	54.9	25.2	74.8	— 8
E	2 000	18	05	.28		12.6	87.4	—13
State Total	11 000	99*	—	—	↓	—	—	23.5

Fifty percent of District B's students qualify for compensatory education and are given the weight of "2.00."

* Does not total 100 because of rounding.

TABLE VI—Equalized Percentage Matching—Ability adjusted for municipal overburden in District B

District	NEED		ABILITY		Relative Wealth Ratio (dist. to state avg.)	State Equalization Percentage	Portion of Expenditure for Equalized matching from		Redistribution Percentage
	No. of Students	Percent of Students	Percent of Total Tax base unadjusted	Percent of Total Tax base adjusted			Local	State	
A	2 000	20	40	47	2.35	↑	100.0	0	+27
B	2 000	20	10	12	.60		25.6	74.4	− 8
C	2 000	20	20	24	1.20		51.1	48.9	+ 4
D	2 000	20	10	12	.60	57.4	25.6	74.4	− 8
E	2 000	20	05	06	.30		12.9	87.1	−14
State Total	10 000	100	85	101*	—	↓	—	—	30.5

District B devotes 60 percent of its revenue to non-school use.
Hence, District B's ability is reduced by 15 percent.
* Does not total 100 because of rounding.

V. Money and Other Matters

Abandoning a wealth-discriminatory school finance system represents a fundamental departure from long-standing education practice. Such a change will have far reaching impact not only in the area of allocation and taxation but in other areas of educational policy as well. Some of these other areas are discussed before turning to the question of money.

Implications for Educational Concerns

A few of the potential outcomes of restructuring school finance systems suggested thus far are set forth below.

Improving school quality. Quality in education like equity in taxation appears to be a sometime thing which depends on the eye of the beholder. As resource investment has increased many times over with little apparent corresponding increase in education output, the maxim that more money buys better schools has been shaken. Nevertheless, Guthrie, et al., in their study of Michigan schools, *Schools and Inequality,* found that the quality and quantity of a variety of school service components make a difference in students' performance, and adequate provision of these services is denied children from poor families. This holds true for entire school districts which contain a clustering of poor families, for individual schools which enroll large numbers of poor children, and for individual students from poor families regardless of where they attend school.[25] On the basis of these findings, any plan which directs more funds into poor districts would presumably bring about improvement in the quality of education.

Another concern which is often expressed, particularly in relation to full state funding, is that uniform expenditures and a leveling down of the entire public school offering may result. While this may occur when legislation is finally enacted, thus far none of the proposed plans has endorsed such an approach.

Community Control and Participation. States exercise varying degrees of control over local school systems. The degree of control is not now correlated with the amount of money which comes from the state. Probably some states should exercise less control and others more. Nevertheless, it will be necessary to pay careful attention to continuation or establishment of vehicles for determining legitimate local policy decisions. Depending on the size of the districts, there may be need for only the district board. On the other hand, community boards or even school parent advisory councils may be required in some instances.

School District Organization. The organization of school districts determines the variation in wealth among districts. The impetus for elimination of small school districts, of which there are several in most states (see Table VII) will be significantly enhanced. Small districts make less efficient use of education dollars. They also tend to widen the range of

TABLE VII—Number of School Systems by Size of Enrollment, 1967

Region and State	Total number of school systems	Non-operating systems	Operating systems by size of enrollment								
			Total	25,000 or more	10,000 to 24,999	5,000 to 9,999	2,500 to 4,999	1,000 to 2,499	600 to 999	300 to 599	Under 300
1	2	3	4	5	6	7	8	9	10	11	12
United States	22 010	1 606	20 255	170	529	1 083	1 941	3 500	2 058	2 581	8 393
North Atlantic											
Connecticut	179	1	179	1	14	23	31	41	22	26	21
Delaware	51	1	50	—	2	5	6	17	6	5	9
Maine	323	53	276	—	1	4	18	55	24	29	145
Maryland	24	—	24	5	9	6	4	—	—	—	—
Massachusetts	406	14	376	3	14	42	57	95	53	42	70
New Hampshire	183	14	169	—	1	3	6	26	21	31	81
New Jersey	593	21	568	3	14	51	98	148	82	98	74
New York	853	91	760	5	32	85	152	239	94	81	72
Pennsylvania [1]	597	7	584	2	28	71	175	234	42	19	13
Rhode Lsland	40	—	40	1	3	5	12	9	3	5	2
Vermont	273	17	243	—	—	1	2	14	21	45	160
District of Columbia	1	—	1	1	—	—	—	—	—	—	—
Great Lakes and Plains											
Illinois	1 315	6	1 309	3	16	44	103	251	201	240	451
Indiana	395	25	369	5	18	22	63	146	37	47	31
Iowa	474	19	456	1	5	14	17	109	136	150	24
Kansas	336	1	333	2	3	8	23	71	90	89	47
Michigan	718	10	721	5	26	51	105	211	72	57	194
Minnesota	1 150	8	1 104	3	13	18	28	97	100	148	697
Missouri	815	101	711	2	13	21	32	117	102	122	302
Nebraska	2 172	429	1 743	2	—	5	8	28	37	95	1 568
North Dakota	498	60	430	—	2	2	3	10	29	70	314
Ohio	691	—	714	7	21	62	152	281	108	42	41
South Dakota	1 804	596	1 145	—	2	1	7	16	24	69	1 026
Wisconsin	493	6	488	3	11	11	42	146	105	90	80

Southeast											
Alabama	118	—	119	5	10	36	44	21	2	1	—
Arkansas	395	2	394	—	4	10	19	74	58	132	97
Florida	67	—	67	11	12	12	19	9	4	—	—
Georgia	195	1	193	8	7	28	64	71	10	4	1
Kentucky	199	—	199	3	2	26	53	74	18	20	3
Louisiana	66	—	65	7	14	25	18	1	—	—	—
Mississippi	149	—	149	1	4	26	66	44	8	—	—
North Carolina	160	—	160	4	28	52	46	29	1	—	—
South Carolina	105	—	106	3	17	20	27	35	3	1	—
Tennessee	151	—	151	6	7	30	44	42	11	7	4
Virginia	132	—	130	10	13	29	37	39	1	1	—
West Virginia	55	—	55	1	12	16	11	15	—	—	—
West and Southwest											
Alaska	27	—	28	—	2	1	3	3	3	2	14
Arizona	297	1	286	2	5	12	13	36	32	47	139
California	1 105	4	1 130	24	75	100	113	177	95	149	397
Colorado	181	—	181	4	7	8	16	25	25	31	65
Hawaii	1	—	1	1	—	—	—	—	—	—	—
Idaho	117	—	117	—	3	3	12	26	20	21	32
Montana	840	80	745	—	2	3	4	21	21	48	646
Nevada	17	—	17	2	—	—	3	6	3	—	3
New Mexico	90	—	90	1	2	8	16	17	11	16	19
Oklahoma	949	9	919	2	4	6	17	56	66	144	624
Oregon	376	6	368	1	3	12	23	52	33	54	190
Texas	1 273	14	1 247	12	32	37	87	191	169	224	495
Utah	40	—	40	3	4	6	7	11	3	4	2
Washington	341	6	331	5	10	22	31	52	44	54	113
Wyoming	180	3	174	—	2	—	4	12	8	21	127

Source: U.S. Office of Education, *Statistics of State School Systems, 1967-68*. Washington: Government Printing Office, 1970.

[1] Includes jointures (two or more school systems combined for the purpose of operating schools), each counted as a single administrative unit.

NOTE.—The sum of columns 3 and 4 do *not* equal column 2 because data for columns 4 through 12 were collected in July 1967, whereas data for columns 2 and 3 were obtained during October 1967. The differences indicate that the States underwent several reorganizations within a few months' time.

relative wealth within the state and, therefore, demand a larger input from state tax sources under a joint finance program to achieve equalization. Beyond consolidation of small districts the entire organizational structure may be affected. For instance, very large taxing and special service units may be created. Where distances or topography prohibit schools large enough for a varied educational offering, service units could provide mobile specialists in such areas as art, music, language, higher mathematics. Regional service units might also establish centers for instructing those students in need of particularly expensive programs. The New York State plan under study comtemplates the development of these types of regional centers in order to provide aid-in-kind rather than additional money.

Capital Expenditures. While this report and the current litigation discuss variations in terms of current expenses, equity would appear to require equalization of the whole school offering, including capital expenditures. An amicus attorney in the *Serrano* case, Stephen Sugarman, feels that there may be more litigation if capital expenditures are not included in the final court order.

Desegregation. The impact of restructuring school finance appears to lie in the removal of certain economic restraints. For instance as regards open housing, a common argument against locating low income housing in suburban developments is that such developments overload the schools with children but fail to make a commensurate contribution to the local tax base. This argument would no longer be valid. A reformed system may also help make metropolitan-area-wide districts more feasible since the differences in local tax bases would no longer mitigate against merger of the districts involved.

Accountability. States lack capacity for determining concrete education goals and for evaluating levels of performance. Yet reformed school finance structures place squarely on the state primary fiscal responsibility for the largest single state and local expenditure item—public elementary and secondary education. Efficient use of school dollars is imperative. Development of statewide systems of information and relevant measures of performance will be essential to informed decision-making.

The Question of Money

Additional funds for financing education will certainly be required in any attempt to attain equalization. How much in additional funds depends on the extent of disequalization in any given state's program and on how the state chooses to correct it.

In 1970-71 estimated total current expenditures for elementary and secondary schools amounted to approximately $36 billion. If the states raised expenditures in all systems to the 90th percentile for example, approximately $5 billion additional would be needed. This assumes similar statewide distributions as in 1966-67 in levels of expenditures at selected percentiles. (Data is given in Table II.)

As previously noted, the courts have not ruled the property tax unconstitutional. Indeed states would find it extremely difficult to achieve equalization and find replacement funds for the approximately $20 billion currently derived from local property taxation. The tax undoubtedly will continue to be a major source of school revenue.

Presumably states which choose full state funding would tax property at the state level: those continuing under a joint support program would continue the current methods of locally imposed taxes on property. In either case, property tax reform is needed to make it a more tolerable and equitable tax instrument.

The Advisory Commission on Intergovernmental Relations has made a comprehensive study of the tax and has set out detailed recommendations to improve assessment practices in its report, *The Role of the States in Strengthening the Property Tax*.

These policy recommendations are based on the following major assumptions.

1. That the prevailing joint state-local system for administering the property tax can work with a reasonable degree of effectiveness only if the State tax department is given sufficient executive support, legal authority, and professional stature to insure local compliance with State law calling for uniformity of tax treatment.
2. That professionalization of the assessment function can be achieved only if the assessor is removed from the elective process and selected on the basis of demonstrated ability to appraise property.
3. That the perennial conflict between State law calling for full value assessment and the local practice of fractional assessment can be resolved most expeditiously by permitting local assessment officials to assess at any uniform percentage of current market value above a specified minimum level provided this policy is reinforced with two important safeguards:

   a. *A full disclosure policy,* requiring the State tax department to make annual county assessment ratio studies and to give property owners a full report on the fractional valuation policy adopted by county assessors.

   b. *An appeal provision* to specifically authorize the introduction of State assessment ratio data by the taxpayer as evidence in appeals to review agencies on the issue of whether his assessment is inequitable.[26]

However, as John Due noted in the NEFP study, even with reform "additional funds for the financing of education cannot, on any significant scale, be found in the local property tax, or in expansion of local non-property taxes . . ." Due states that the alternative tax sources for education must come "from expanded use of sales and income taxes, plus reliance on Federal income taxation for Federal grants." Specifically:

1. Most states can make more effective use of sales taxation, by increasing the rate to at least 5 percent and ultimately beyond, and by broadening the structure to eliminate most exemptions of

consumption goods and to include some services. At the same time, to alleviate burden on the lowest income groups and lessen opposition to the tax, credit should be given against state income tax for an amount representing sales tax payments on basic necessary expenditures with cash refund when the person has no income tax liability.

2. Most states can make more effective use of income taxation, in some by lowering exemptions, in many states by broadening the coverage of the tax by reducing deductions and including tax free income, and by the use of higher rates.
3. The corporate income tax should be the primary general business levy, replacing gross receipts and capital stocks taxes where these are still used. Many states can gain substantial revenue by raising the rate to the median figure.
4. Local sales taxes and, to an even greater extent, local income taxes are objectionable in a number of respects and should be integrated into the state levies, except in unusual circumstances when one or a few cities require much more revenue than others.
5. The federal government should continue to rely on personal and corporate income taxes, with some revision in structure, as the primary source of funds for educational and other purposes.[27]

John Due calculated estimates of how much additional revenue, based on his proposals, the states may gain from:

. . . The sales tax by raising rates to 5 percent, including consumer services at a 5 percent rate, and eliminating consumer exemptions;

. . . The individual income tax by taking the Oregon levy as a model, with rates from 4 to 10 percent and exemption of $600 per person; and

. . . The corporate income tax by imposing a 7 percent rate.

As seen in Table VIII potential revenue available to the states totals $25 billion, according to Due's estimates, and additional funds required to raise all districts to a minimum at the 90th percentile totals $5 billion. This data is presented for the states to assist in assessing the revenue needs and potential for achieving equalization.

TABLE VIII—Assessing Revenue Needs at the 90th Percentile and Tax Potential

	Current Expenditures—1970-71 (in millions)			Potential Tax Revenue—1969 [4] (in millions)			
	Total for Public Elementary and Secondary Schools [1]	Additional Amount required to raise districts to the 90th Percentile [2]	Total State and Local Tax Collections, 1969 [3]	Total Additional Revenue Potential	From Sales	From Individual Income	From Corporate Income
UNITED STATES	$35 710	$ 5 336	$76 712	$25 255	$10 349	$12 476	$ 2 430
North Atlantic							
Connecticut	600	122	1 177	541	163 [a]	378	—
Delaware	117	15	201	69	66	—	3
Maine	175	18	301	144	34 [a]	83	27
Maryland	808	89	1 546	301	247 [a]	54	—
Massachusetts	806	181	2 474	407	220	187	—
New Hampshire	106	5	215	163	77	66	20 [a]
New Jersey	1 530	253	2 903	1 246	331 [a]	825	90 [a]
New York	4 336	404	10 544	1 688	1 590 [a]	98	—
Pennsylvania	2 089	381	4 007	411	315	96	—
Rhode Island	159	36	345	1 228	25	1 203	— [a]
Vermont	110	3	169	50	44	5	1

TABLE VIII—Assessing Revenue Needs at the 90th Percentile and Tax Potential—Continued

	Current Expenditures—1970-71 (in millions)			Potential Tax Revenue—1969 [1] (in millions)			
	Total for Public Elementary and Secondary Schools [1]	Additional Amount required to raise districts to the 90th Percentile [2]	Total State and Local Tax Collections, 1969 [3]	Total Additional Revenue Potential	From Sales	From Individual Income	From Corporate Income
Great Lakes & Plains							
Illinois	1 968	334	4 118	2 031	281 [a]	1 313	437
Indiana	851	116	1 710	851	350	337	164
Iowa	630	67	1 081	329	138	173	18 [a]
Kansas	360	41	804	315	115	155	45 [a]
Michigan	1 716	277	3 754	532	300	177	55
Minnesota	761	78	1 503	283	221	62	—
Missouri	699	75	1 400	660	250	335	75
Nebraska	214	28	525	241	122 [a]	103	16
North Dakota	98	24	208	70	30	37	3
Ohio	1 750	259	3 284	1 916	433	1 113	370
South Dakota	110	7	233	106	190 [a]	295	24
Wisconsin	883	42	1 859	308	188 [a]	—	120
Southeast							
Alabama	370	58	793	282	75	174	33
Arkansas	240	48	441	207	87	100	20
Florida	1 040	149	2 096	1 179	395	588	196
Georgia	656	109	1 252	511	257	242	12
Kentucky	404	59	897	203	25	148	30
Louisiana	622	108	1 116	536	260 [a]	249 [a]	27 [a]
Mississippi	263	43	571	205	44 [a]	126	35
North Carolina	713	125	1 347	387	200	168	19
South Carolina	392	80	605	227	115 [a]	105	7
Tennessee	501	101	1 006	509	190	295	24
Virginia	810	156	1 465	352	175	150	27
West Virginia	253	37	478	157	52	104 [a]	1

West & Southwest							
Alaska	106	—	110	48	39	8	1
Arizona	333	66	655	234	125	97	12 [a]
California	3 742	765	10 499	2 361	1 151	1 210	—
Colorado	399	64	810	215	102	100	13
Hawaii	180	—	381	36	34	—	2
Idaho	104	6	236	49	31	17	1
Montana	139	8	244	97	66	30	1
Nevada	94	1	213	109	41	53	15
New Mexico	192	36	322	120	58 [a]	60	2
Oklahoma	345	35	737	387	182	170	35
Oregon	411	30	786	206	200	—	6
Texas	1 601	245	3 084	2 026	700 [a]	996	330
Utah	185	18	342	92	49 [a]	36	7
Washington	665	106	1 395	567	94	363	110
Wyoming	76	28	132	63	25	30	8

[1] National Education Association, *Estimates of School Statistics, 1970-71*, Research Report 1970-R15. Washington: The Association, 1970.

[2] Compiled from data in 1967 Census of Governments. U.S. Bureau of the Census.

[3] U.S. Bureau of the Census, *Governmental Finances in 1968-69*. Washington: Government Printing Office, 1970.

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[a] By January 1, 1971 rates had been increased or new taxes had been enacted. Potential from sales based on rates in effect as of September 1969; from individual and corporate income on rates as of January 1, 1970. For charges since 1-1-71, see 1972 Edition of ACIR *State and Local Finances* (in process).

VI. Conclusion

"American public education has been given a significant chance for progress by the doctrine of the California Supreme Court. Governor William Milliken of Michigan had worked hard even before the California decision for legislation to move all school costs to the state budget. The governors of Minnesota and Ohio appear to have similar interests, and Governor Ronald Reagan of California has publicly urged statewide property tax reform. Perhaps the call from the California court will delay state legislative action until the U.S. Supreme Court finally resolves the Constitutional issues. Even then, there would be a long period of adjustment and difficulty. Seventeen years have passed since the Supreme Court handed down the *Brown* decision, and the schools are still in the process of desegregation.

"Educators and laymen concerned about the schools should get to work now to ensure that no such anguished chasm develops between the promise of the California doctrine and its fulfillment."[28]

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